

The Historic Huntsville Quarterly

Volume 29
Number 1 *Preservation Primer*

Article 10

3-20-2003

Tax Breaks for Historic Preservation

Marc Goldmon

Donna Castellano

Follow this and additional works at: <https://louis.uah.edu/historic-huntsville-quarterly>



Part of the [Historic Preservation and Conservation Commons](#), and the [History Commons](#)

Recommended Citation

Goldmon, Marc and Castellano, Donna (2003) "Tax Breaks for Historic Preservation," *The Historic Huntsville Quarterly*. Vol. 29: No. 1, Article 10.

Available at: <https://louis.uah.edu/historic-huntsville-quarterly/vol29/iss1/10>

This Article is brought to you for free and open access by LOUIS. It has been accepted for inclusion in The Historic Huntsville Quarterly by an authorized editor of LOUIS.

MARC GOLDMON AND DONNA CASTELLANO

Tax Breaks for Historic Preservation

How would you like to protect or restore your historic property, preserve the historic character of a downtown business district or neighborhood, and get a tax break to boot? Federal and state governments, and some local governments, offer sponsored tax credits to entice property owners to preserve national history.

Currently, the federal government offers a 20 percent tax credit to owners who undertake a rehabilitation project that the Secretary of the Interior designates a certified rehabilitation of a certified historic structure. This credit is limited to properties rehabilitated for commercial, industrial, agricultural, or income-producing residential purposes, but is not available for properties used exclusively as the owner's private residence. A certified historic structure is a building that is listed individually on the National Register of Historic Places OR a building that is located in a registered historic district and certified by the National Park Service as contributing to the historic significance of that district. A National Register Historic District is a district listed on the National Register of Historic Places. However, state or local historic districts may also qualify if the district is certified by the Secretary of the Interior.

There are, of course, standards that a restoration project must meet in order to qualify for the 20 percent tax credit. The Secretary of the Interior's Standards for Rehabilitation says that (1) The property shall be used for its historic purpose or be placed in a new use that requires minimal change to the defining characteristics of the building and its site and environment. (2) The historic character of the property shall be retained and preserved. The removal of historic materials or alteration of features and spaces that characterize a property shall be avoided. (3) Each property should be a physical record of its time, place and use. Changes that create a false sense of historical development, such as adding architectural features from another

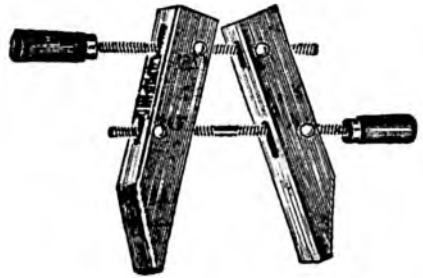
A dollar of tax credit reduces the amount of income tax owed by a property owner by one dollar.

building, will not be permitted. (4) Features that are distinctive to the period and are examples of craftsmanship will be preserved. (5) Deteriorated features will be repaired rather than replaced. (6) Chemical or physical treatments, such as sand-blasting, will not be used. (7) New construction must be compatible with historic structure, in size, scale, and architecture. (8) New additions or construction must be carried out so that if they are removed, the original structure is not damaged.

If rehabilitation is carried out according to the above requirements and has the required supporting documentation, the property owner receives a 20 percent income tax credit. A tax credit differs significantly from an income tax deduction.

An income tax deduction lowers the amount of income subject to taxation. A tax credit, however, lowers the amount of tax owed. For example, if a property owner received a \$20,000 tax credit for a certified rehabilitation, that individual's \$50,000 tax bill would be reduced to \$30,000 once the tax credit was applied.

Structures that were built before 1936 but are not on the National Register of Historic Places or are not in a recognized historic district qualify for a 10 percent tax credit. Like the 20 percent credit, the 10 percent credit is available for properties rehabilitated for commercial, industrial, or agricultural purposes. Rental housing would not qualify. Again, the 10% credit is not available for properties used exclusively as the owner's private residence.



THE WALLACE PROPERTY RELIEF CONSTITUTIONAL AMENDMENT

This allows commercial, rental, or industrial property to be assessed at the residential rate if the property is deemed historic. This amounts to a 50 percent property tax reduction from 20 percent to 10 percent of appraised value.



REQUIREMENTS FOR FEDERAL TAX CREDITS

For a 10 percent tax credit, a building —

- must have been built before 1936
- cannot be listed on the National Register of Historic Places
- cannot be in a recognized historic district

For a 20 percent tax credit, the building —

- must be individually listed on the National Register of Historic Places or have certified historic rehabilitation status as required by the Secretary of the Interior's Standards for Rehabilitation
- may or may not have been built before 1936
- may or may not be in an historic district
- must have some historic elements to preserve or maintain, and
- the rehabilitation cannot radically alter the historic character of the building
- careful documentation of the entire building — all important original architectural details and elements on the interior and exterior — must be provided

The State of Alabama also offers property tax reductions for owners of historic, income-producing property. If a building is listed on the National Register of Historic Places, either individually or as a contributing structure in a district, the owner can receive a reduction in his property tax bill.

Sound complicated? Let the Alabama Historical Commission help you navigate through this process. The commission gives preliminary approval for the 20 percent tax credits. In addition, meet with an architect who has successfully received approved tax credits. He can show you the required documentation, photographs, and additional work needed before starting any rehabilitation or renovation work on a property. **It is imperative that property owners and their contractors fully understand this process before any work begins.** Removal of any vital feature or fixture could result in the forfeiture of the 10 percent or 20 percent tax credit. It would also be wise to seek the advice of a qualified tax accountant to assess the impact of the tax credits on your personal income.

*Central YMCA, 203 Greene Street
A certified rehabilitation project*